# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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## FISCAL IMPACT STATEMENT

**LS 7089** | **NOTE PREPARED:** Jan 9, 2010
**BILL NUMBER:** HB 1357 | **BILL AMENDED:**

**SUBJECT:** Price-Based Nursing Home Reimbursement under Medicaid.

**FIRST AUTHOR:** Rep. Pelath | **BILL STATUS:** As Introduced
**FIRST SPONSOR:**

**FUNDS AFFECTED:** X **GENERAL** | **IMPACT:** State & Local
**DEDICATED**
X **FEDERAL**

**Summary of Legislation:** This bill requires the Select Joint Commission on Medicaid Oversight to study the impact of changing health facility reimbursement under the Medicaid program to a price-based reimbursement system.

The bill also sets the health facility Quality Assessment Fee (QAF) at the maximum amount allowed by the federal government (5.5%).

**Effective Date:** Upon passage; July 1, 2010.

**Explanation of State Expenditures:** *Select Joint Commission on Medicaid Oversight:* This bill would require the Select Joint Commission on Medicaid Oversight to include this topic in the Commission's work plan for the 2010 interim session. During the 2009 interim, the 12-member Commission held three meetings and spent approximately $6,300. Legislative Council resolutions in the past have established budgets for interim study committees in the amount of $9,500 per interim.

*Quality Assessment Fee:* This bill would increase the amount of Medicaid reimbursement for nursing facilities as a result of an increase in the QAF and would extend the QAF for three additional years through FY 2014. The current statute requires that 80% of the QAF collected must be used to leverage federal Medicaid matching funds to increase nursing facility reimbursement, targeting specific uses. The remaining 20% of the estimated QAF must be used to offset Medicaid costs incurred by the state. During the period of ARRA stimulus funding, 60% of the QAF is used for enhanced nursing facility reimbursement and 40% remains with the state. Should federal financial participation become unavailable to provide for the additional reimbursement, current law provides that the Office of Medicaid Policy and Planning (OMPP) will cease to collect the QAF. The amount of increased reimbursement for nursing facilities available would depend on whether the federal Centers for Medicare and Medicaid Services (CMS) approves an increase in the QAF.

The bill would require OMPP to apply to CMS for approval to increase the amount of the QAF to the maximum percentage allowed by federal law. Medicaid waiver and plan amendments are generally considered to be administrative in nature and achievable within the current level of resources available to the OMPP. However, OMPP may be required to revise the current assessment methodology. It is not known if OMPP would require additional resources to revise the QAF. [This information will be supplied when it is available from OMPP.]

An increase in the QAF could increase the speed at which some nursing facility residents spend down their assets and become Medicaid-eligible.

The Medicaid program is jointly funded by the state and federal governments. The state share of program expenditures is approximately 34%. Medicaid medical services are matched by the federal match rate (FMAP) in Indiana at approximately 66%. The ARRA stimulus add-on percentage of 6.2% and the estimated 2.77% bonus unemployment percentage do not apply to medical assistance that is currently eligible for enhanced FMAP such as CHIP, nor do they apply to Disproportionate Share Hospital payments. Administrative expenditures with certain exceptions are matched at the federal rate of 50%.

**Explanation of State Revenues:** *Extension of the QAF:* Extending the authorization for the collection of the QAF and the related increased expenditures from August 2011 to August 2014 would authorize an estimated annual collection of about $100 M for three additional years if nursing facility days remain constant. The QAF currently expires August 2011.

The OMPP has estimated that increasing the assessment to 5.5%, the maximum level of collections allowable, would require increasing the collections by $36.9 M to raise a total of approximately $135.5 M annually. The state share of the collections would increase by approximately $7.4 M to a total of $27.5 M using the regular FMAP.

*Background:* In the current model approved by CMS, the amount of the QAF is based on a nursing facility's total annual patient days. Quality assessments of $10 per non-Medicare patient day are to be collected from nursing facilities with total annual patient days of less than 70,000 days. Facilities with annual patient days equal to or greater than 70,000 days will be assessed $2.50 per non-Medicare day. Local government-owned nursing facilities will be assessed $2.50 per non-Medicare patient day, as well. Nursing facilities that are continuing care retirement communities, hospital-based, or owned by the state are exempt from the QAF. It is not clear from the bill if the methodology would have to be changed from the current model to collections based on net patient revenues.

**Explanation of Local Expenditures:** County-owned nursing facilities would be required to pay an increase in the Medicaid QAF.

**Explanation of Local Revenues:** County-owned nursing facilities would potentially receive an increase in reimbursement as a result of leveraging additional federal dollars through the QAF. Individual circumstances would determine if a facility would receive more revenue than is paid out for the QAF.

**State Agencies Affected:** OMPP, Family and Social Services Administration.

**Local Agencies Affected:** County-owned nursing facilities.

**Information Sources:**

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